

California State Senate

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March 16, 2010

The Honorable Arnold Schwarzenegger
Governor, State of California
State Capitol
Sacramento, CA 95814

Dear Governor Schwarzenegger,

I write in response to your March 15, 2010, letter expressing your opinion on the Legislature's job creation efforts and mid-year budget actions.

Over the last two months, the Legislature has considered and approved – in a bipartisan fashion – legislation that would reduce the state budget deficit by more than \$4 billion and create more than 40,000 jobs. Since you called the 8th Special Session to address the state's fiscal emergency, the Legislature has:

- Held 10 full Senate Budget Committee hearings to consider, review, and take hundreds of hours of public testimony on your January budget and jobs proposals.
- Developed and passed to you 12 budget-related bills that combine to reduce the state's deficit by \$4.1 billion.
- Introduced and began passing a 27-bill jobs package aimed at creating 140,000 jobs in California. Eight of these bills passed the Senate and four are on your desk, awaiting your signature. The work continues.
- Held necessary oversight hearings to ensure bottled-up federal ARRA funds are moving through clogged bureaucracies – like the California Energy Commission – in your Administration.
- Joined you on a bipartisan leadership trip to Washington, D.C. to ensure California receives its fair share of federal funds to help us meet our current fiscal challenges.

As I stated during our phone conversation yesterday, I remain optimistic that we can work together to achieve our common goals of balancing our budget and stimulating our economy through job creation. While Republicans and Democrats in the Legislature have already taken bold and decisive steps toward these objectives, we recognize that more can and needs to be done. We look forward to working with you on this, and offer the following to guide our discussion.

Your letter mistakenly claims that the budget legislation sent to you last week addresses only \$200 million of the state's \$20 billion budget deficit. Actually, the mid-year actions taken by the Legislature would have reduced the deficit by 20 percent, or more than \$4 billion. Unfortunately, you vetoed one measure that would have cut our deficit by \$2.1 billion, and appear intent to veto another measure valued at more than \$1 billion. In short, it is your actions that threaten to reduce the value of the Legislature's budget solutions from more than \$4 billion to only \$200 million.

With respect to the gas tax swap measure, you are correct that the version passed by the Legislature differed from your original proposal. But that is hardly a reason to veto the measure that is currently awaiting your signature. You claim your proposal would have provided \$1 billion in lower gas costs for consumers. Unfortunately, this claim is not only unsupported by any evidence, but is actually refuted by the conclusions of the state Attorney General and experience in other states that have reduced fees on gasoline. The evidence actually establishes that consumers end up paying as much or more for gas after implementing such marginal fee decreases, and that the end result is increased profits for oil companies. As the *Hartford Courant* reported when Connecticut tried a similar gas tax cut, "Gas taxes and prices are not connected in an ironclad way. The tax can be cut, but the benefits to consumers will be swallowed up in higher prices at the pump. In the future, the Governor and Legislature should build tax policy on a firmer foundation."

Further, your proposal would have resulted in a dramatic reduction in revenue for transit and road improvements that Californians deserve, and that also help create and maintain more than 15,000 jobs. In other words, because the Legislature shares your commitment to job creation, we sent you the version as modified. I hope you will reconsider your stated intent to veto the measures on your desk.

Next, you take issue with the bill we sent you that provides tax relief for victims of short sales and developers of renewable energy projects because the measure also includes a provision that imposes penalties on the wealthiest individuals and corporations that commit tax fraud, with full due process and appeals available to those fined. It is disappointing that you would consider vetoing this legislation over a provision that has been part of federal tax law since 2007, when President Bush signed it into law. Aside from conforming with federal tax law, the penalty provision also ensures that the vital tax relief we provide to short sale victims and renewable energy developers is paid for, reducing the effect on our budget deficit. We believe the tax conformity measure we sent you is fiscally responsible. Of course, if you find a conforming penalty for the wealthiest tax frauds unacceptable, we would seriously consider an alternative revenue source more to your liking, and of equal value, to include in the measure.

Which brings me to your concern about the Legislature's failure to immediately approve and embrace your specific "job creation" proposals. While we share a common goal to create jobs and stimulate California's economy, I remain committed to doing so in a fiscally responsible manner. Unfortunately, the cornerstones of your jobs agenda would add more than \$200 million to the state budget deficit. I would love to work with you on a way to provide tax breaks for homebuyers and "clean tech" companies in a manner that doesn't worsen the budget deficit and further reduce state support for public education. As you so eloquently stated in your weekend radio address about the state budget situation, "When you're in a hole, the first rule is stop digging."

With regard to your \$3,000 hiring tax credit, the Legislative Analyst said that it was poorly designed, wouldn't create new jobs, would provide a windfall to businesses that are planning to expand on the natural, and creates new borrowing that would have to be repaid by businesses with a tax increase. As I told you yesterday, I am happy to work with you on alternatives to this proposal that would have a better shot at creating new work opportunities for the thousands of unemployed Californians.

Governor, thank you for your letter and your commitment to restoring California's economy in a fiscally responsible manner. I look forward to working with you in the days and weeks ahead to achieve our common goals.

Sincerely,

A handwritten signature in black ink, reading "Darrell Steinberg". The signature is fluid and cursive, with a large, sweeping loop at the end of the last name.

DARRELL STEINBERG
President pro Tempore of the Senate

Cc: Honorable Members of the Legislature